

Service Date: March 9, 1994

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * * * *

In the Matter of the Application)
of PACIFICORP for authority to)
(1) borrow the proceeds of not)
more than \$225,000,000 of)
Pollution Control Revenue)
Refunding Bonds to be issued)
by various Counties, (2) enter)
into such agreements or arrange-)
ments with the Counties and with)
other entities as may be reason-)
ably necessary to effect the)
borrowings and to provide credit)
enhancement for the Refunding)
Bonds, including the issuance of)
First Mortgage and Collateral)
Trust Bonds, and (3) replace or)
modify from time to time the)
credit enhancement arrangements)
supporting the Refunding Bonds.)

UTILITY DIVISION

DOCKET NO. 94.2.10

DEFAULT ORDER NO. 5776

On February 22, 1994, PacifiCorp (Company), a corporation organized and existing under and by virtue of the laws of the State of Oregon and qualified to transact business in Montana, filed with the Montana Public Service Commission its verified application, pursuant to §§ 69-3-501 through 69-3-507, MCA, requesting an order authorizing the Company to (1) borrow the proceeds of not more than \$225,000,000 of Pollution Control Revenue Refunding Bonds (Refunding Bonds) to be issued by the Counties of Emery, Utah, Carbon, Utah, Lincoln, Wyoming, Sweetwater, Wyoming, Converse, Wyoming, and Moffat, Colorado

(Counties), (2) enter into such agreements or arrangements with the Counties and with other entities as may be reasonably necessary to effect the borrowings and to provide credit enhancement for the Refunding Bonds, including the issuance of its First Mortgage and Collateral Trust Bonds as collateral for the Refunding Bonds, and (3) replace or modify from time to time the credit enhancement arrangements supporting the Refunding Bonds.

The borrowings will be made in connection with the refunding of up to nine series of outstanding pollution control revenue bonds (Prior Bonds) which were issued to finance, or refinance, the cost of certain pollution control, solid waste disposal and sewage facilities at the Jim Bridger, Carbon, Dave Johnston, Huntington, Hunter, Naughton and Craig electric generating plants.

On August 18, 1992, under Docket No. 92.8.35, Default Order No. 5642, the Commission authorized the Company to borrow the proceeds of not more than \$150,000,000 of pollution control revenue refunding bonds to be issued by various counties. Pursuant to that authority, the Company refunded six series of bonds aggregating \$109,325,000. This application is intended to increase and replace the unused authority granted by the Commission under Docket No. 92.8.35.

The application is supported by exhibits and data in accordance with the rules and regulations of the Commission governing the authorization of the issuance of securities by electric and gas utility companies operating within Montana.

For detailed information with respect to the general character of the Company's business and the territories served by it, reference is made to its annual reports on file with the Commission.

The application sets forth Counsel who will pass upon the legality of the proposed issuance, the other regulatory authorizations required, and the propriety of the proposed issue.

At a regular open session of the Montana Public Service Commission held in its offices at 1701 Prospect Avenue, Helena, Montana, on March 7, 1994, there came before the Commission for final action the matters and things in Docket No. 94.2.10, and the Commission, having fully considered the application and all the data and records pertaining to it on file with the Commission and being fully advised in the premises, makes the following:

FINDINGS

1. PacifiCorp is a corporation organized and existing under and by virtue of the laws of the State of Oregon and is qualified to transact business in the State of Montana.
2. PacifiCorp is operating as a public utility as defined in § 69-3-101, MCA, and is engaged in furnishing electric service in Montana.
3. The Company was incorporated under Oregon law in August, 1987, for the purpose of facilitating consummation of a merger with Utah Power & Light Company, a Utah corporation, and changing the state of incorporation of PacifiCorp from Maine to Oregon. The Company uses the assumed business

names of Pacific Power & Light Company and Utah Power & Light Company within their respective service territories located in the states of California, Idaho, Montana, Oregon, Utah, Washington and Wyoming.

4. The Commission has jurisdiction over the subject matter of the application under § 69-3-102, MCA.

5. Notice of the application was published as a part of the Commission's regular weekly agenda.

6. The Counties will issue the Refunding Bonds. The Company will enter into an agreement with the Counties pursuant to which it will receive the proceeds of such issuance and agree to make payments sufficient to pay principal of, interest on, and premium (if any) on the Refunding Bonds, and to cover certain additional expenses. The aggregate principal amount of the Refunding Bonds will not exceed \$225,000,000. In order to achieve the lowest cost of money, the Company also expects to enter into one or more agreements with unrelated third parties, such as commercial banks or insurance companies, to provide further assurance to the purchasers of the Refunding Bonds that the principal of, the interest on, and the premium (if any) on the Refunding Bonds will be paid on a timely basis. These arrangements may involve the issuance of the Company's First Mortgage and Collateral Trust Bonds as collateral for the Refunding Bonds in an amount not greater than the aggregate principal amount of the Refunding Bonds.

7. The borrowings will be made in connection with the refunding of the Prior Bonds, which were issued by the Counties to finance or refinance air and

water pollution control, solid waste disposal and sewage facilities (Facilities) at the Jim Bridger, Carbon, Dave Johnston, Huntington, Hunter, Naughton and Craig plants (Plants). The Facilities consist principally of systems to remove and finally dispose of particulates and sulfur dioxide from flue gases and certain solid and sewage wastes.

8. To accomplish this refinancing, the Company will apply the gross proceeds from the appropriate issuance of Refunding Bonds to the redemption and cancellation of the aggregate principal amount of the Prior Bonds. Because some of the Prior Bonds have a redemption premium, this premium (as well as the costs of issuance) will be funded from sources other than the proceeds of the Refunding Bonds.

9. The Refunding Bonds will be issued pursuant to an Indenture of Trust between the County and a trustee. Pursuant to an agreement between the County and the Company, the proceeds from the sale of the Refunding Bonds, other than refundable accrued interest, will be loaned to the Company to refund the Prior Bonds, and thereby refinance the Facilities. Under the agreement, the Company will be obligated to pay absolutely and unconditionally, to the extent sufficient funds are not already in the possession of the trustee, the principal of, the interest on, and the premium (if any) on the Refunding Bonds, as well as certain fees and expenses of the County. Under no circumstances will the Refunding Bonds and their related costs become an obligation of the County.

10. To achieve the lowest cost of money, the Company may enter into reimbursement agreements, guarantees, pledges, or other security agreements or

arrangements to assure timely payment of amounts due in respect of the Refunding Bonds. For example, a letter of credit may be added in order to support the Refunding Bonds. In connection with a letter of credit, the Company would enter into a reimbursement agreement under which a bank would issue a letter of credit to support payments in respect of the Refunding Bonds. Under the reimbursement agreement, the Company would be required to reimburse the bank for any drawings under its letter of credit. Amounts advanced by a bank under a letter of credit are expected to bear interest based upon various short-term rates. The Company expects that any letter of credit bank will have a long-term credit rating not less than AA and a short-term credit rating of A-1/P-1. In the event a letter of credit is obtained, it is expected to have an initial term of three years unless extended by mutual consent of the bank and the Company or replaced by the Company with another letter of credit or an alternative credit enhancement arrangement.

11. The fees associated with the credit enhancement arrangement are not expected to exceed 0.75 percent per annum. The Company believes, and its experience in previous tax-exempt financings confirms, that the interest savings from enhancing the credit support for the Refunding Bonds will exceed the cost of the letter of credit or alternative credit arrangements; that is, the effective cost of the Refunding Bonds will be lowered by the credit enhancement arrangements.

12. Over the life of the Refunding Bonds, it may be necessary or desirable to replace one or more letters of credit or alternative credit enhancement arrangements from time to time as, for example, the credit ratings of the various

banks (and thus the Company's interest costs) fluctuate or market rates for letters of credit change. The Company therefore requests authority to substitute, as necessary or desirable from time to time, letters of credit or other credit enhancement arrangements for letters of credit or other credit enhancement arrangements then in effect with respect to the Refunding Bonds.

13. The Refunding Bonds will be issued with floating or fixed interest rates in several series with an aggregate principal amount not to exceed \$225,000,000.

14. While floating rate Refunding Bonds have a nominal long-term maturity, the obligation will have a "put" feature which enables the holder to tender the bonds at par within a short notice period. The floating rate Refunding Bonds will be marketed with one or more put frequencies, including, but not limited to, daily, weekly and monthly puts. Because of the put feature, investors are indifferent to the final maturity of the instrument; as a result, the floating rate Refunding Bonds may be structured with the longest maturity justified by the underlying assets being financed, while obtaining rates reflective of short maturities.

15. In view of the put feature, the Company will enter into an agreement with a remarketing agent who will agree in advance to seek new purchasers for the floating rate Refunding Bonds on a best-efforts basis if and when the bonds are put. To satisfy the investment criteria of potential purchasers, the Company expects to arrange for a letter of credit or insurance contract as a source of credit support and liquidity. For example, a letter of credit will provide amounts required to purchase tendered floating rate Refunding Bonds which have not been

successfully remarketed immediately, as well as amounts required for payment of scheduled interest and principal at maturity or through acceleration. The floating rate Refunding Bonds not immediately remarketed may thereafter be sold to other investors.

16. Floating rate Refunding Bonds may include the selection of one of several tax-exempt market rate pricing modes, including pricing modes as short as daily and as long as annually. The Refunding Bonds may also include an option to convert to a fixed rate mode. The pricing mode selection will depend upon a number of factors, including expectations as to which mode offers the lowest relative rates at the time of issuance. During the time the floating rate Refunding Bonds carry a floating rate, the bonds would be prepayable at par plus accrued interest at the end of any interest rate period.

17. Because of historically low interest rates, the Company may choose to issue the Refunding Bonds with fixed interest rates. It is expected that interest payments would be made on a semi-annual basis. The fixed rate Refunding Bonds may include call provisions at fixed prices at future dates. The Company may choose to purchase credit enhancement from insurance companies to achieve lower borrowing costs because the bonds would carry a AAA/Aaa rating. The insurance companies may require the Company to collateralize the Refunding Bonds with the Company's First Mortgage and Collateral Trust Bonds. However, if the anticipated interest savings are not sufficient or the terms relating to the bond insurance are considered to be unduly restrictive, the Company may choose not to obtain insurance and may collateralize the Refunding Bonds with the

Company's First Mortgage and Collateral Trust Bonds in an aggregate principal amount not exceeding the principal amount of the Refunding Bonds, thereby providing the Refunding Bonds with a credit rating equal to its senior debt (A/A3). The Commission previously authorized the Company to incur the lien of the PacifiCorp Mortgage in Docket No. 88.10.37, Default Order No. 5373. As in its previous issuances, the Company would expect to issue first mortgage bonds under the Pacific Power Mortgage and Utah Power Mortgage as the basis for the issuance of its First Mortgage and Collateral Trust Bonds. Bonds issued under the Pacific Power and Utah Power Mortgages would not count toward the maximum amount of bond authority granted in this Docket.

18. The underwriting fee is not expected to exceed 1.25 percent of the principal amount of the Refunding Bonds. If floating rate Refunding Bonds are issued, the annual remarketing fee is not expected to exceed 0.125 percent of the principal amount of the Refunding Bonds. The Counties may receive an issuance fee paid up front and/or annually at an effective rate not expected to exceed 0.125 percent per annum on the principal amount of the Refunding Bonds. The Company will also pay the expenses of the offering incurred by the Counties.

19. The results of the offering are expected to be as follows:

ESTIMATED RESULTS OF THE FINANCINGS (1)

Proceeds from Refunding Bonds	<u>\$225,000,000</u>
Redemption Premium	\$ 767,575
Issuance Costs:	
Underwriters Fees (1.25%) (2)	2,812,500
Other Expenses	<u>5,500,000</u>
Total Costs to Issue Refunding Bonds	<u>\$9,080,075</u>

- (1) As the financings are special purpose financings, the interest on which is exempt from taxation to the holder, the proceeds may be used only to refinance the principal amount of the Prior Bonds issued to finance the Facilities. All issuance costs and redemption premiums associated with the Refunding Bonds must be derived from other capital sources of the Company.
- (2) Based upon a fixed rate offering.

OTHER EXPENSES

Regulatory Agency Fees	\$ 1,500
Issuer Fees (1)	2,500,000
Trustee Fees	50,000
Company Counsel Fees	150,000
Underwriters' Counsel Fees	200,000
Bond Counsel Fees	200,000
Accountants' Fees	50,000
Credit Enhancement Fees (2)	2,000,000
Rating Agency Fees	100,000
Printing Fees	100,000
Miscellaneous	<u>148,500</u>
Total Other Expenses	<u>\$5,500,000</u>

- (1) The Company may be required to pay an Issuer's fee to the Counties to compensate the Counties for providing the Company the opportunity to issue the Refunding Bonds. The Company's past experience indicates that Emery County and Lincoln County will charge such a fee. Sweetwater County and Converse County generally have not charged a fee. At this time, the Company is not familiar with Moffat County's policy regarding such fees. For purposes of this estimated expense, it is assumed that all Counties will require the Company to pay an Issuer's Fee. Issuer's Fees are not expected to exceed an effective cost

of 0.125 percent per annum of the principal amount over the life of the Refunding Bonds.

- (2) Represents initial commitment fee for bond insurance. If a letter of credit is used, credit enhancement cost is not expected to exceed 0.75 percent per annum.

20. The net proceeds of the borrowings will be used to refund Prior Bonds currently outstanding that were issued previously to finance, or refinance, Facilities at the Plants.

21. The proposed borrowings are a part of an overall plan to finance the cost of the Company's facilities taking into consideration prudent capital ratios, earnings coverage tests, and market uncertainties as to the relative merits of the various types of securities the Company could sell.

22. The issuance of an order authorizing the proposed financings does not constitute agency determination/approval of any issuance-related ratemaking issues which issues are expressly reserved until the appropriate proceeding.

CONCLUSIONS

The proposed borrowings to which the application relates will be for lawful objects within the corporate purposes of the Company. The method of financing is proper.

ORDER

IT IS THEREFORE ORDERED by the Commission that:

1. The application of PacifiCorp, filed on February 22, 1994, for authority to borrow the proceeds of not more than \$225,000,000 of Pollution Control Revenue Bonds (Refunding Bonds) to be issued by various counties by December 31, 1995, pursuant to §§ 69-3-501 through 69-3-507, MCA, and to use the proceeds for normal utility purposes, is approved.

2. The application of PacifiCorp to enter into such agreements or arrangements with the Counties and with other entities as may be reasonably necessary to effect the borrowing and pursuant to which the Company would assume obligations as guarantor, surety, or otherwise with respect to the payment of the principal of, the interest on, and the premium (if any) on the Bonds and to enter into such agreements or arrangements as may be necessary to provide credit enhancement for said bonds, including the issuance of its First Mortgage and Collateral Trust Bonds as collateral for the Refunding Bonds, all in connection with the refunding of outstanding Pollution Control Revenue Bonds that were issued to finance, or refinance, certain air and water pollution control, solid waste disposal and sewage facilities at the Jim Bridger, Carbon, Dave Johnston, Huntington, Hunter, Naughton and Craig Generating Plants, is approved.

3. The application of PacifiCorp for authority to issue an additional \$225,000,000 of its First Mortgage and Collateral Trust Bonds (and related first mortgage bonds issued under the Pacific Power & Light Company and Utah Power & Light Company mortgages), which bonds may be used as collateral support for

the Refunding Bonds as described in the application, is approved. Such first mortgage bonds shall not count toward the bond authority granted herein.

4. The remaining unused authority under Docket No. 92.8.35 is hereby rescinded.

5. The application of PacifiCorp to replace or modify from time to time the credit enhancement arrangements supporting the Refunding Bonds, is approved.

6. PacifiCorp shall file the following as they become available:

- a) The "Report of Securities Issued" required by 18 CFR 34.10.
- b) Verified copies of any agreement entered into in connection with the borrowings pursuant to this Order.
- c) Verified copies of any credit enhancement arrangement entered into pursuant to this Order.
- d) A verified statement setting forth in reasonable detail the disposition of the proceeds of the borrowing made pursuant to this Order.

7. Issuance of this Order does not constitute acceptance of PacifiCorp exhibits or other material accompanying the application for any purpose other than the issuance of this Order.

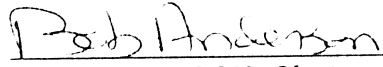
8. Approval of the transactions authorized shall not be construed as precedent to prejudice any further action of the Commission.

9. Section 69-3-507, MCA, provides that neither the issuance of securities by PacifiCorp pursuant to the provisions of this Order, nor any other act or deed done or performed in connection with the issuance, shall be construed to obligate the State of Montana to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, or guaranteed.

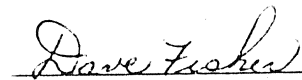
10. This Order shall be effective upon execution.


DONE IN OPEN SESSION at Helena, Montana, this 7th day of March, 1994.
by a 5 to 0 vote.

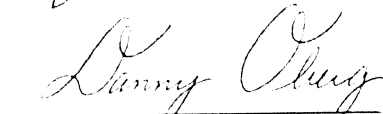
BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION


BOB ANDERSON, Chairman



BOB ROWE, Vice Chairman


DAVE FISHER, Commissioner


NANCY McCAFFREE, Commissioner


DANNY OBERG, Commissioner

ATTEST:


Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.